

Bus transportation during rush hours for suburban community. A nonprofit organization formed by residents of a suburban community to provide bus transportation between the community and the major employment centers in the metropolitan area during rush hours when the regular bus service is inadequate qualifies for exemption under section 501(c)(4) of the Code.

Advice has been requested whether the nonprofit organization described below qualifies for exemption from Federal income tax under section 501(c)(4) of the Internal Revenue Code of 1954.

The organization was formed by residents of a suburban community to provide bus transportation during rush hours between the community and the major employment centers in the metropolitan area. The regular bus service is inadequate at those times.

The organization contracts or buses and drivers, plans their routes and schedules, and arranges for volunteers to collect the fares on each trip. Although everyone may ride the organization's buses for the established fare, almost all riders live in the community. The organization is supervised by an uncompensated board of directors elected by community residents.

Its meetings are publicized in advance and are open to all residents.

Revenue from fares is not always sufficient to meet the organization's expenses. The organization has sought and received financial assistance from different governmental units to enable it to continue operation of the bus service.

Section 501(c)(4) of the Code provides for exemption from Federal income tax of civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare.

Section 1.501(c)(4)-1(a)(2)(i) of the Income Tax Regulations provides that an organization is operated exclusively for the promotion of social welfare if it is primarily engaged in promoting in some way the common good and general welfare of the people of the community. An organization embraced within this section is one which is operated primarily for the purpose of bringing about civic betterments and social improvements.

Section 1.501(c)(4)-1(a)(2)(ii) of the regulations provides that an organization is not operated primarily for the promotion of social welfare if its primary activity is carrying on a business with the general public in a manner similar to organizations which are operated for profit.

In this case, the organization is providing a useful service to all members of the community. The bus service provided is not

commercially available and is subsidized by governmental financial assistance. Participation in the organization's affairs is open to all community residents, and volunteers carry out its activities. This method of operation indicates that it is not carrying on a business with the general public in a manner similar to organizations which are operated for profit. Therefore, the organization is promoting the common good and general welfare of the people of the community within the meaning of section 1.501(c)(4)-1(a)(2) of the regulations.

Accordingly, the organization qualifies for exemption from Federal income tax under section 501(c)(4) of the Code.

Compare Rev. Rul. 55-311, 1955-1 C.B. 72, which holds that a local association of employees operating a bus primarily for the convenience of its members is not exempt under section 501(c)(4) of the Code and Rev. Rul. 78-68, page 149, this Bulletin, which holds that an organization formed as a Federal Motel Cities demonstration project to provide bus transportation to areas of a community not served by the existing city bus system qualifies for exemption from Federal income tax as a charitable organization under section 501(c)(3) because it is lessening the burdens of government.

Even though an organization considers itself within the scope of this Revenue Ruling, it must file an application on Form 1024, Application for Recognition of Exemption, in order to be recognized by the Service as exempt under section 501(c)(4) of the Code. The application should be filed with the District Director of Internal Revenue for the key district indicated in the instructions to the Form 1024. See section 1.501(a)-1 of the regulations.